

PERRY COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2013

PERRY COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

State Committee for School District Audits
Members of Perry County Board of Education
Hazard, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities each major fund, and the aggregate remaining fund information of Perry County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Appendices to the Independent Auditor's Contract. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Perry County School District, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note T to the financial statements, during the year ended June 30, 2013, the District adopted the provisions of Governmental Accounting Standards Board Statements No. 60, Accounting and Financial Reporting Service Concession Arrangements, No. 61, The Financial Reporting Entity, No. 62, Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA pronouncements, and No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-9 and 43-44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Perry County School District's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2013, on our consideration of the Perry County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Perry County School District's internal control over financial reporting and compliance.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 23, 2013

PERRY COUNTY SCHOOL DISTRICT
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2013

As management of the Perry County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The beginning cash balance, including temporary investment accounts and activity funds, for the District was \$14,898,340. The ending cash balance, including temporary investment accounts and activity funds, for the District was \$11,345,708. Of this amount, \$2,977,107 was in the Building Fund and \$4,846,518 in the construction fund.
- Fixed assets additions for the year ended include construction expenditures for the East Perry Elementary School and Athletic Complex facilities, \$12,870,335.
- The District acquired four buses through KISTA financing totaling \$345,932.
- Interest revenue totaled \$247,504 for the year ended and for the prior year the total interest revenue was \$180,519.
- The District's total long-term debt principal reductions were \$2,921,924.
- A revenue debt series was issued, \$6,635,000 to assist in construction of the Athletic Complex facilities near Highway 80.
- Total general fund revenue was \$31,479,070 consisting primarily of state program (SEEK), property, utilities, and motor vehicle taxes. Excluding general fund transfers, there was \$31,330,376 in general fund expenditures. The general fund revenue and expenditures include \$6,245,386 in state on-behalf payments.

OVERVIEW OF FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

PERRY COUNTY SCHOOL DISTRICT
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2013

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds include activity funds. Proprietary funds include the school food service, daycare and preschool funds. All other activities are reported under governmental funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

PERRY COUNTY SCHOOL DISTRICT
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2013, assets exceeded liabilities by \$25,396,859.

The greatest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and ongoing construction projects, where applicable), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net position for the year ended June 30, 2013

Below is a comparison of net position:

	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
Current Assets	12,295,020	16,175,334
Noncurrent Assets	<u>53,945,978</u>	<u>42,188,000</u>
<u>Total Assets</u>	<u>66,240,998</u>	<u>58,363,334</u>
Current Liabilities	5,300,947	5,079,754
Noncurrent Liabilities	<u>35,543,192</u>	<u>30,653,700</u>
<u>Total Liabilities</u>	<u>40,844,139</u>	<u>35,733,454</u>
- Net Position -		
Investment in Capital Assets (net of debt)	15,594,858	8,046,139
Restricted	7,005,559	10,367,937
Unrestricted	<u>2,796,442</u>	<u>4,215,804</u>
<u>Total Net Position</u>	<u>25,396,859</u>	<u>22,629,880</u>
<u>Total Liabilities and Net Position</u>	<u>66,240,998</u>	<u>58,363,334</u>

PERRY COUNTY SCHOOL DISTRICT
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2013

The following are significant current year transactions that impact the Statement of Net Assets:

- Decrease in current restricted cash and cash equivalents used in construction financing.
- Current liabilities for the year ended June 30, 2013 include \$1,805,587 in construction related liabilities.
- Long-term debt increases reflect the September 2012 Revenue issue totaling \$6,635,000.

The following table presents a comparison of statement of activities for the fiscal years ended June 30, 2013 and 2012:

Revenues:	For Year Ended June 30,	
	<u>2013</u>	<u>2012</u>
Local revenue sources	10,104,456	10,683,770
State revenue sources	28,671,203	28,206,756
Federal revenue	<u>8,075,834</u>	<u>8,156,381</u>
<u>Total revenues</u>	<u>46,851,493</u>	<u>47,046,907</u>
Expenses:		
Instruction	25,048,593	25,820,824
Student support services	1,758,607	1,713,974
Instructional support	2,181,068	1,755,307
District administration	873,660	746,186
School administration	2,170,101	2,122,712
Business support	940,668	970,490
Plant operation	3,770,143	3,938,596
Student transportation	2,993,509	3,047,994
Food service operations	2,897,307	2,811,231
Community services	564,115	568,064
Day care operations	38,208	53,784
Interest on long-term debt	<u>848,535</u>	<u>934,682</u>
<u>Total expenses</u>	<u>44,084,514</u>	<u>44,483,844</u>
<u>Revenues in excess of expenses</u>	<u>2,766,979</u>	<u>2,563,063</u>

PERRY COUNTY SCHOOL DISTRICT
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2013

- Current year expense reflects depreciation in the amount of \$1,676,424 and state on-behalf payments in the amount of \$6,417,623. Prior year expense reflects depreciation in the amount of \$1,764,610 and state on-behalf payments in the amount of \$6,446,684.
- Local property tax comparisons at 2012 and 2013 are as follows: General property tax – \$3,086,214 and \$3,078,915; unmined minerals tax - \$1,263,867 and \$1,314,785; and, motor vehicle tax - \$823,585 and \$874,169 and utility tax revenue, \$1,624,041 and \$1,548,319. The decline in local revenue is generally comprised of the District's Food Service conversion to a no-charge policy for student breakfast and lunches beginning in the fiscal year ended June 30, 2013.
- SEEK program fiscal year end General Fund revenue was \$17,307,056 for year ending June 30, 2012 and for 2013 was \$17,003,173.

BUDGET COMPARISONS

The following table presents a comparison of budget to actual for the general fund for the fiscal year ended June 30, 2013:

	Budget <u>2013</u>	Actual <u>2013</u>	Variance <u>I (D)</u>
Revenues:			
Local revenue sources	7,451,764	8,009,212	557,448
State revenue sources	17,101,173	23,370,885	6,269,712
Federal revenue sources	<u>25,000</u>	<u>98,973</u>	<u>73,973</u>
<u>Total revenues</u>	<u>24,577,937</u>	<u>31,479,070</u>	<u>6,901,133</u>
Expenses:			
Instruction	15,303,310	18,849,574	(3,546,264)
Student support services	1,326,781	1,720,955	(394,174)
Instructional support	585,876	743,660	(157,784)
District administration	660,763	870,442	(209,679)
School administration	1,713,144	2,170,101	(456,957)
Business support	745,032	926,181	(181,149)
Plant operation and management	3,471,700	3,302,992	168,708
Student transportation	1,938,445	2,545,710	(607,265)
Food service operations	600	-	600
Community services	5,068	3,644	1,424
Debt service	197,116	197,116	-
Contingencies	<u>962,201</u>	<u>-</u>	<u>962,201</u>
<u>Total expenses</u>	<u>26,910,036</u>	<u>31,330,375</u>	<u>(4,420,339)</u>
<u>Excess (deficiency) of revenue over expense</u>	<u>(2,332,099)</u>	<u>148,695</u>	<u>2,480,794</u>

PERRY COUNTY SCHOOL DISTRICT
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2013

- Actual revenues and expenditures reflect state on behalf payments in the amount of \$6,245,386.
- Actual local revenue psc property tax, exceeded budget revenue in the amount of \$284,501.
- Actual local revenue reflects unbudgeted omitted property tax in the amount of \$280,163.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$962,201 in contingency (3.56%) for the fiscal year ended June 30, 2013.

Results of the current fiscal year and recent historical trends for the District were taken into account when preparing the subsequent year budget. No significant changes in revenue or expense items are foreseeable. The District's tax rates and tax base remain effectively the same. The District has assessed and considered underlying economical and funding factors at the federal, state, and local level and other non-financial areas including demographics, local economy and risk of loss of student population that may have a significant impact on the financial statements when preparing subsequent years budgets.

Questions regarding this report should be directed to the Superintendent or the Finance Officer at (606) 439-5813.

PERRY COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

At June 30, 2013

	Governmental Activities	Business-type Activities	Total
Assets:			
- Current Assets -			
Cash and cash equivalents - unrestricted	2,809,654	-	2,809,654
Cash and cash equivalents - restricted	7,823,625	575,364	8,398,989
Accounts receivable:			
Taxes - current	194,206	-	194,206
Taxes - delinquent	100,573	-	100,573
Other	59,926	-	59,926
Intergovernmental - State	3,942	-	3,942
Intergovernmental - Indirect Federal	448,768	235,808	684,576
Inventories	-	43,154	43,154
<u>Total current assets</u>	<u>11,440,694</u>	<u>854,326</u>	<u>12,295,020</u>
- Noncurrent Assets -			
Unamortized discounts and issue costs - net	318,066	-	318,066
Capital assets	83,804,911	1,126,280	84,931,191
Less: accumulated depreciation & amortization	(30,392,557)	(910,722)	(31,303,279)
<u>Total noncurrent assets</u>	<u>53,730,420</u>	<u>215,558</u>	<u>53,945,978</u>
<u>Total assets</u>	<u>65,171,114</u>	<u>1,069,884</u>	<u>66,240,998</u>
Liabilities:			
- Current liabilities -			
Cash deficit	334,549	-	334,549
Accounts payable	2,148,737	9,733	2,158,470
Current portion of bond/lease obligations	2,094,355	-	2,094,355
Interest payable	713,573	-	713,573
<u>Total current liabilities</u>	<u>5,291,214</u>	<u>9,733</u>	<u>5,300,947</u>
- Noncurrent liabilities -			
Noncurrent portion of bond/lease obligations	35,543,192	-	35,543,192
<u>Total noncurrent liabilities</u>	<u>35,543,192</u>	<u>-</u>	<u>35,543,192</u>
<u>Total liabilities</u>	<u>40,834,406</u>	<u>9,733</u>	<u>40,844,139</u>
Net position:			
Invested in capital assets, net of related debt	15,379,300	215,558	15,594,858
Restricted for:			
Sick Leave	138,223	-	138,223
Other	6,022,743	844,593	6,867,336
Unrestricted	2,796,442	-	2,796,442
<u>Total net position</u>	<u>24,336,708</u>	<u>1,060,151</u>	<u>25,396,859</u>
<u>Total liabilities and net position</u>	<u>65,171,114</u>	<u>1,069,884</u>	<u>66,240,998</u>

See notes to financial statements.

11.

PERRY COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2013

		Program Revenues		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions
	<u>Expenses</u>			
FUNCTIONS/PROGRAMS:				
- Governmental Activities -				
Instruction	25,048,593	-	(9,464,255)	-
Support services:				
Student	1,758,607	-	(455,806)	-
Instructional staff	2,181,068	-	(1,512,033)	-
District administration	873,660	-	(74,548)	-
School administration	2,170,101	-	(472,497)	-
Business support	940,668	-	(168,089)	-
Plant operation & management	3,770,143	-	(326,454)	-
Student transportation	2,993,509	-	(469,041)	-
Food service operations	-	-	-	-
Community services operations	564,115	-	(580,685)	-
Interest & amortization on long-term debt	848,535	-	-	-
<u>Total governmental activities</u>	<u>41,148,999</u>	<u>-</u>	<u>(13,523,408)</u>	<u>-</u>
- Business-type Activities -				
Food service	2,897,307	(334,614)	(3,120,217)	-
Day care	38,208	(37,658)	-	-
<u>Total business-type activities</u>	<u>2,935,515</u>	<u>(372,272)</u>	<u>(3,120,217)</u>	<u>-</u>
<u>Total primary government</u>	<u>44,084,514</u>	<u>(372,272)</u>	<u>(16,643,625)</u>	<u>-</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES (continued)
For the Year Ended June 30, 2013

	<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Governmental</u>	<u>Business-</u>	
	<u>Activities</u>	<u>Type</u>	<u>Total</u>
		<u>Activities</u>	
	(15,584,338)	-	(15,584,338)
	(1,302,801)	-	(1,302,801)
	(669,035)	-	(669,035)
	(799,112)	-	(799,112)
	(1,697,604)	-	(1,697,604)
	(772,579)	-	(772,579)
	(3,443,689)	-	(3,443,689)
	(2,524,468)	-	(2,524,468)
	-	-	-
	16,570	-	16,570
	<u>(848,535)</u>	<u>-</u>	<u>(848,535)</u>
	<u>(27,625,591)</u>	<u>-</u>	<u>(27,625,591)</u>
	-	557,524	557,524
	-	<u>(550)</u>	<u>(550)</u>
	-	556,974	556,974
	<u>(27,625,591)</u>	<u>556,974</u>	<u>(27,068,617)</u>
General revenues:			
Taxes	9,381,190	-	9,381,190
Investment earnings	233,198	14,306	247,504
State and formula grants	20,103,412	-	20,103,412
Miscellaneous	<u>103,490</u>	<u>-</u>	<u>103,490</u>
<u>Total general revenues</u>	<u>29,821,290</u>	<u>14,306</u>	<u>29,835,596</u>
Change in net position	2,195,699	571,280	2,766,979
Net position - beginning of year	<u>22,141,009</u>	<u>488,871</u>	<u>22,629,880</u>
Net position - ending of year	<u><u>24,336,708</u></u>	<u><u>1,060,151</u></u>	<u><u>25,396,859</u></u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS

At June 30, 2013

	General Fund	Special Revenue	Construction Fund	FSPK Fund	Other Gov't Funds	Total Gov't Funds
Assets and resources:						
Cash and cash equivalents - unrestricted	2,809,654	-	-	-	-	2,809,654
Cash and cash equivalents - restricted	-	-	4,846,518	2,977,107	-	7,823,625
Accounts receivable:						-
Taxes - current	194,206	-	-	-	-	194,206
Taxes - delinquent	100,573	-	-	-	-	100,573
Other	57,436	2,490	-	-	-	59,926
Intergovernmental - State	-	3,942	-	-	-	3,942
Intergovernmental - Indirect Federal	37,633	411,135	-	-	-	448,768
<u>Total assets and resources</u>	<u>3,199,502</u>	<u>417,567</u>	<u>4,846,518</u>	<u>2,977,107</u>	<u>-</u>	<u>11,440,694</u>
Liabilities and fund balances:						
Cash deficit	-	334,549	-	-	-	334,549
Accounts payable	260,132	83,018	1,805,587	-	-	2,148,737
<u>Total liabilities</u>	<u>260,132</u>	<u>417,567</u>	<u>1,805,587</u>	<u>-</u>	<u>-</u>	<u>2,483,286</u>
Fund balances						
Restricted for SFCC Escrow	-	-	-	2,977,107	-	2,977,107
Restricted for future construction	-	-	3,040,931	-	-	3,040,931
Restricted for sick leave	138,223	-	-	-	-	138,223
Assigned - purchase obligations	4,705	-	-	-	-	4,705
Unassigned fund balance	2,796,442	-	-	-	-	2,796,442
<u>Total fund balances</u>	<u>2,939,370</u>	<u>-</u>	<u>3,040,931</u>	<u>2,977,107</u>	<u>-</u>	<u>8,957,408</u>
<u>Total liabilities and fund balances</u>	<u>3,199,502</u>	<u>417,567</u>	<u>4,846,518</u>	<u>2,977,107</u>	<u>-</u>	<u>11,440,694</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTRECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITIONAt June 30, 2013

Total fund balance per fund financial statements	8,957,408
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but are reported in the statement of net position.

53,730,420

Certain liabilities (such as bonds payable and accrued interest) are not reported in this fund financial statement because they are not due and payable, but are presented in the statement of net position.

<u>(38,351,120)</u>

Net position for governmental activities
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<u><u>24,336,708</u></u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2013

	<u>General</u>	<u>Special</u>	<u>Construction</u>	<u>FSPK</u>	<u>Other</u>	<u>Total</u>
	<u>Fund</u>	<u>Revenue</u>	<u>Fund</u>	<u>Fund</u>	<u>Gov't Funds</u>	<u>Gov't Funds</u>
Revenues:						
From local sources:						
Taxes	7,767,618	-	-	1,613,572	-	9,381,190
Earnings on investments	219,162	-	14,036	-	-	233,198
Other local revenue	22,432	81,058	-	-	-	103,490
Intergovernmental - state	23,370,885	2,194,544	-	1,042,980	1,744,971	28,353,380
Intergovernmental - direct federal	98,973	66,723	-	-	-	165,696
Intergovernmental - indirect federal	-	5,107,744	-	-	-	5,107,744
<u>Total revenues</u>	<u>31,479,070</u>	<u>7,450,069</u>	<u>14,036</u>	<u>2,656,552</u>	<u>1,744,971</u>	<u>43,344,698</u>
Expenditures:						
Instructional	18,849,574	4,992,924	-	-	-	23,842,498
Student support services	1,720,955	37,652	-	-	-	1,758,607
Staff support services	743,660	1,437,408	-	-	-	2,181,068
District administration	870,442	3,218	-	-	-	873,660
School administration	2,170,101	-	-	-	-	2,170,101
Business support	926,181	14,487	-	-	-	940,668
Plant operations and maintenance	3,302,992	51,662	-	-	338,574	3,693,228
Student transportation	2,545,710	170,547	-	-	-	2,716,257
Food service operations	-	5,436	-	-	-	5,436
Community service activities	3,645	575,897	-	-	-	579,542
Facilities acquisition and construction	-	-	12,870,335	-	-	12,870,335
Debt service:						
Principal	166,731	-	-	-	2,755,193	2,921,924
Interest	30,385	-	-	28,924	628,684	687,993
<u>Total expenditures</u>	<u>31,330,376</u>	<u>7,289,231</u>	<u>12,870,335</u>	<u>28,924</u>	<u>3,722,451</u>	<u>55,241,317</u>
Excess (deficit) of revenues over expenditures	<u>148,694</u>	<u>160,838</u>	<u>(12,856,299)</u>	<u>2,627,628</u>	<u>(1,977,480)</u>	<u>(11,896,619)</u>
Other financing sources (uses):						
Bond proceeds	-	-	6,589,300	-	-	6,589,300
Operating transfers in	30,414	63,627	214,914	-	2,005,327	2,314,282
Operating transfers out	(63,627)	(224,465)	-	(1,816,415)	(188,912)	(2,293,419)
<u>Total other financing sources (uses)</u>	<u>(33,213)</u>	<u>(160,838)</u>	<u>6,804,214</u>	<u>(1,816,415)</u>	<u>1,816,415</u>	<u>6,610,163</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	115,481	-	(6,052,085)	811,213	(161,065)	(5,286,456)
Fund balance - July 1, 2012	<u>2,823,889</u>	<u>-</u>	<u>9,093,016</u>	<u>2,165,894</u>	<u>161,065</u>	<u>14,243,864</u>
Fund balance - June 30, 2013	<u>2,939,370</u>	<u>-</u>	<u>3,040,931</u>	<u>2,977,107</u>	<u>-</u>	<u>8,957,408</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTRECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESFor the Year Ended June 30, 2013

Net change in total fund balances per fund financial statements	(5,286,456)
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Amounts reported for governmental activities in the statement of activities differences:

Capital outlays are reported as expenditures in the fund financial statements because they use current financial resources, but are presented as assets in the statement of activities and depreciated over their estimated useful economic lives. The difference is the amount by which capital outlay exceeds depreciation adjustments for the year.	11,298,984
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Bond proceeds are recognized as financing resources in the fund financial statements but as a liability in the government-wide financial statements.	(6,589,300)
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Bond principal payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net assets.	<u>2,772,471</u>
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Change in net position of governmental activities	<u><u>2,195,699</u></u>
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See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF NET POSITION – PROPRIETARY FUNDSAt June 30, 2013

	Food Service <u>Fund</u>	Day Care <u>Fund</u>	<u>Total</u>
Assets:			
- Current Assets -			
Cash and cash equivalents - restricted	574,949	415	575,364
Accounts receivable	235,808	-	235,808
Inventories	43,154	-	43,154
	<u> </u>	<u> </u>	<u> </u>
<u>Total current assets</u>	<u>853,911</u>	<u>415</u>	<u>854,326</u>
- Noncurrent Assets -			
Capital assets	1,126,280	-	1,126,280
Less: accumulated depreciation	(910,722)	-	(910,722)
	<u> </u>	<u> </u>	<u> </u>
<u>Total noncurrent assets</u>	<u>215,558</u>	<u>-</u>	<u>215,558</u>
	<u> </u>	<u> </u>	<u> </u>
<u>Total assets</u>	<u>1,069,469</u>	<u>415</u>	<u>1,069,884</u>
Liabilities:			
- Current Liabilities -			
Accounts payable	9,318	415	9,733
	<u> </u>	<u> </u>	<u> </u>
<u>Total current liabilities</u>	<u>9,318</u>	<u>415</u>	<u>9,733</u>
Net position:			
Investments in capital assets	215,558	-	215,558
Restricted for inventories	43,154	-	43,154
Restricted - other	801,439	-	801,439
	<u> </u>	<u> </u>	<u> </u>
<u>Total net position</u>	<u>1,060,151</u>	<u>-</u>	<u>1,060,151</u>
	<u> </u>	<u> </u>	<u> </u>
<u>Total liabilities and net position</u>	<u>1,069,469</u>	<u>415</u>	<u>1,069,884</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –
PROPRIETARY FUNDS

For the Year Ended June 30, 2013

	<u>Food service</u> <u>Fund</u>	<u>Day Care</u> <u>Fund</u>	<u>Total</u>
Operating revenues:			
Lunchroom sales	334,614	-	334,614
Federal grants	2,802,394	-	2,802,394
State grants/on-behalf payments	195,175	-	195,175
Donated commodities	122,648	-	122,648
Tuition from individuals	<u>-</u>	<u>37,658</u>	<u>37,658</u>
 <u>Total operating revenues</u>	 <u>3,454,831</u>	 <u>37,658</u>	 <u>3,492,489</u>
Operating expense:			
Salaries and wages	1,160,990	37,623	1,198,613
Contract services	88,058	-	88,058
Materials and supplies	1,518,810	585	1,519,395
Depreciation	30,381	-	30,381
Other operating expenses	<u>78,205</u>	<u>-</u>	<u>78,205</u>
 <u>Total operating expenses</u>	 <u>2,876,444</u>	 <u>38,208</u>	 <u>2,914,652</u>
 <u>Operating income (loss)</u>	 <u>578,387</u>	 <u>(550)</u>	 <u>577,837</u>
Nonoperating Revenue/(Expense):			
Interest income	14,306	-	14,306
Transfers in (out)	<u>(20,863)</u>	<u>-</u>	<u>(20,863)</u>
 <u>Total nonoperating revenue/(expense)</u>	 <u>(6,557)</u>	 <u>-</u>	 <u>(6,557)</u>
 <u>Net income (loss)</u>	 <u>571,830</u>	 <u>(550)</u>	 <u>571,280</u>
 Net Position, July 1, 2012	 <u>488,321</u>	 <u>550</u>	 <u>488,871</u>
 Net Position, June 30, 2013	 <u>1,060,151</u>	 <u>-</u>	 <u>1,060,151</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

For the Year Ended June 30, 2013

	<u>Food Service Fund</u>	<u>Day Care Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from:			
Lunchroom sales	334,614	-	334,614
Federal and State grants	2,677,241	-	2,677,241
Tuition from individuals	-	37,658	37,658
Cash paid to/for:			
Employees	(988,753)	(37,623)	(1,026,376)
Supplies/Contractual	(1,480,858)	(626)	(1,481,484)
Other activities	<u>(78,205)</u>	<u>-</u>	<u>(78,205)</u>
 <u>Net cash provided (used) by operating activities</u>	 <u>464,039</u>	 <u>(591)</u>	 <u>463,448</u>
 Cash flows from capital and related financing activities:			
Change in capital assets (net)	<u>(96,945)</u>	<u>-</u>	<u>(96,945)</u>
 Cash flows from investing activities:			
Interest income	<u>14,306</u>	<u>-</u>	<u>14,306</u>
 Cash flows from financing activities:			
Transfers from (to) other funds	<u>(20,863)</u>	<u>-</u>	<u>(20,863)</u>
Net increase (decrease) in cash	360,537	(591)	359,946
Cash, beginning of year	<u>214,412</u>	<u>1,006</u>	<u>215,418</u>
Cash, end of year	<u>574,949</u>	<u>415</u>	<u>575,364</u>
 Reconciliation of operating income (loss) to net cash provided (used) by operations:			
Operating income (loss)	578,387	(550)	577,837
Adjustments to reconcile operating income to cash provided (used) by operating activities:			
Depreciation	30,381	-	30,381
Changes in current assets/liabilities			
Accounts receivable	(148,091)	-	(148,091)
Inventory	11,015	-	11,015
Accounts payable	<u>(7,653)</u>	<u>(41)</u>	<u>(7,694)</u>
 Net cash provided (used) by operating activities	 <u>464,039</u>	 <u>(591)</u>	 <u>463,448</u>

The schedule reflects \$172,237 of non-cash on-behalf payments from the State related to personnel costs and \$122,648 related to donated commodities.

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF FIDUCIARY NET POSITION – ACTIVITY FUNDSAt June 30, 2013**Assets:**

Cash and cash equivalents	<u>471,614</u>
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<u>Total assets</u>	<u>471,614</u>
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Liabilities:

Accounts payable	1,070
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Due to individual student activity account funds	<u>470,544</u>
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<u>Total liabilities</u>	<u>471,614</u>
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Net Postion:

Permanently restricted reserve for scholarships	<u>-</u>
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<u>Total liabilities and net position</u>	<u>471,614</u>
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See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTSJune 30, 2013NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Perry County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Perry County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding sources entities. However, the Board is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence, operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Perry County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment or the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Perry County School District Finance Corporation – On July 12, 1988, the Perry County, Kentucky, Board of Education resolved to authorize the establishment of the Perry County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Perry County Board of Education also comprise the Corporations’ Board of Directors.

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total position. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Grant Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)II. Proprietary Funds (Enterprise Funds)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recognized for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

The Childcare fund accounts for revenues and expenditures related to daycare services and preschool activities.

III. Fiduciary Fund Types (includes agency and trust funds)

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Accounting Procedures for Kentucky School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements,

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Accounting (continued)

in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. The District elected not to early implement GASB 65, effective for periods beginning after December 15, 2012, establishing accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and change in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenues.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.482 per \$100 valuation for real property, \$.482 per \$100 valuation for business personal property and \$.497 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

Compensated absence liabilities are recorded based on balances for classified and certified employees with twenty-seven or more years of experience at June 30, 2013.

The District has restricted \$138,223 of its fund balance for future sick leave payments.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Position

GASB 63, implemented for the current fiscal year, has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources. Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "investment in capital assets, " consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations on its use either through the enabling legislation adopted by the District or through external restrictions imposed by the creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Interfund Activity (continued)

Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the bank balance of the District's cash and cash equivalents was \$13,347,579. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

The funds of the District are deposited and invested under the terms of a contract, contents of which are set out in the bond of depositors for public school funds. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that the District may not recover collateral securities. The District requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). All of the District's deposits were collateralized with securities held in the financial institution's name except for investments in short-term commercial paper held at US Bank and balances in the construction fund at First National Bank exceeding \$250,000. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not retain any long-term investments. Concentrations of credit risk are the risk of loss attributed to the magnitude of the District's investments in a single issuer. All of the organization's cash is held at a local financial institution. Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The District does not hold any foreign investments.

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

NOTE C – CASH AND CASH EQUIVALENTS (continued)

Cash and cash equivalents at June 30, 2013 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Peoples Bank & Trust		
General operations	9,408,197	7,428,554
A.B. Combs Elementary	23,490	23,478
Big Creek Elementary	23,183	23,183
Buckhorn School	52,728	47,354
Chavies Elementary	46,481	42,042
Dennis Wooton Elementary	108,961	108,801
Leatherwood Elementary	17,408	16,035
Perry County Central High School	95,033	87,537
Robinson Elementary	27,001	26,822
R.W. Combs Elementary	51,158	49,858
Viper Elementary	35,761	35,520
Willard Elementary	12,638	10,984
	<u>9,902,039</u>	<u>7,900,168</u>
US Bank		
Construction Fund	<u>2,202,153</u>	<u>2,202,153</u>
First National Bank		
Construction Fund	<u>1,243,387</u>	<u>1,243,387</u>

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT

The original amount of each issue, the issue date and interest rates are summarized as follows:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
September 2001	1,865,000	3.50% - 4.75%
Revenue June 2004	3,865,000	2.70% - 4.90%
KISTA January 2005	779,290	3.00% - 3.625%
Revenue Bonds July 2006	3,015,000	3.70% - 4.375%
KISTA 2009	890,356	2.00% - 3.80%
Refunding February 2010	1,870,000	1.00% - 3.00%
Revenue January 2011	1,935,000	1.50% - 4.75%
Revenue 2nd Series December 2011	6,745,000	2.00% - 3.25%
QSCB Construction Bonds December 2011	13,300,000	5.00% - 5.00%
Refunding Revenue June 2012	3,360,000	1.10% - 2.25%
KISTA 2013	355,834	2.00% - 2.00%
Revenue Series September 2012	6,635,000	2.00% - 3.00%

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Perry County Fiscal Court and the School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt and are considered defeased by the District.

In 1988, the District entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The Perry County School District Finance Corporation issued school building revenue bonds dated December 1, 2011 to assist in financing construction of the new county elementary school. The par amount of the bonds were \$6,745,000, issued at a discount of \$41,029.80. An initial deposit of \$6,645,090.20 was made to the construction fund. Total bond issue costs were \$58,880.

Perry County School District Finance Corporation issued Qualified School Construction Bonds, taxable series dated December 1, 2011 having a par amount of \$13,300,000. Of this amount, \$13,137,337 of the proceeds were deposited directly to the construction fund for assistance in new building facilities for an elementary school. Total bond issue costs were \$54,660. The bond was issued at a discount of \$118,503.

<u>Fiscal Year End</u>	<u>QSCB Series 2011 Escrow Payment</u>		<u>Expected Escrow Earnings</u>	<u>QSCB Series 2011 Interest</u>	
	<u>Board</u>	<u>KSFCC</u>		<u>Total</u>	<u>Tax Credit</u>
2013	378,800	174,406	6,987	665,000	(665,000)
2014	371,065	182,141	21,227	665,000	(665,000)
2015	367,943	185,263	35,829	665,000	(665,000)
2016	368,343	184,863	50,802	665,000	(665,000)
2017	369,020	184,186	66,155	665,000	(665,000)
2018	373,136	180,070	81,899	665,000	(665,000)
2019	370,799	182,407	98,043	665,000	(665,000)
2020	378,801	174,405	114,598	665,000	(665,000)
2021	378,800	174,406	131,573	665,000	(665,000)
2022	378,800	174,406	148,980	665,000	(665,000)
2023	378,800	174,406	166,829	665,000	(665,000)
2024	378,801	174,405	185,132	665,000	(665,000)
2025	378,800	174,406	203,900	665,000	(665,000)

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

Fiscal Year End	QSCB Series 2011 Escrow Payment		Expected Escrow Earnings	QSCB Series 2011 Interest	
	Board	KSFCC		Total	Tax Credit
2026	378,800	174,406	223,145	665,000	(665,000)
2027	378,800	174,406	242,880	665,000	(665,000)
2028	378,800	174,405	263,116	665,000	(665,000)
2029	378,801	174,405	283,866	665,000	(665,000)
2030	366,213	186,993	305,144	665,000	(665,000)
2031	<u>378,800</u>	<u>174,406</u>	<u>158,982</u>	<u>332,500</u>	<u>(332,500)</u>
subtotal	7,132,122	3,378,791	2,789,087	12,302,500	(12,302,500)
realized	<u>(378,800)</u>	<u>(74,406)</u>	<u>(6,987)</u>	<u>(665,000)</u>	<u>665,000</u>
future	<u>6,753,322</u>	<u>3,304,385</u>	<u>2,782,100</u>	<u>11,637,500</u>	<u>(11,637,500)</u>
Principal payment due 12/1/2030			<u>13,300,000</u>		

\$332,500 semi-annual interest payments are due every June and December through December 1, 2030. A federal tax credit for the same amount has been granted for each bondholder resulting in a subsidy/federal on-behalf payment for the School District. The action is a result of creation of qualified school construction bonds under the American Recovery and Reinvestment Act. The Act allows deferral of principal payments for up to 17 years and the creation of an escrow account as noted above. The bonds provide federal tax credits for bondholders in lieu of interest in order to significantly reduce the issuer's cost of borrowing. The A-133 Compliance Supplement acknowledges Qualified School Construction Bonds passed through the U.S. Department of Education are not covered by the single audit requirement and are not required to be included in the Schedule of Expenditures of Federal Awards.

The Perry County School District Finance Corporation issued school building refunding revenue bonds dated June 1, 2012 in order to assist in defeasing a prior issue dated June 1, 2004. The bonds were issued at a net discount of \$33,600. A deposit of \$3,284,471 was made to the Series 2004 Escrow Account. Total bond issue costs were \$39,400. Kentucky School Facilities participation in the issue was \$931,236 of the debt principal. A portion of the June 1, 2004 remains non-refunded and debt service payments are required for fiscal years 2013 and 2014. The total savings to the district as a result of the refunding is \$294,447.50.

The District entered into a ten year lease agreement during the fiscal year with Kentucky Interlocal School Transportation Association (KISTA) for \$355,834 to acquire four buses. Interest over the term is \$38,219 at 2.00%.

The Perry County School District Finance Corporation issued \$6,635,000 September 2012 revenue bonds to assist in financing the Perry County School Athletic Complex facilities. Bond issue costs were \$45,700. The State School Facilities Construction Commission is not participating in this issue.

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

Debt issue costs are recognized as expenditures when incurred in governmental funds but are deferred and amortized over the term of the debt issue for the government-wide and proprietary fund type financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2013, for debt service (principal and interest excluding the QSCB Escrow payments) are as follows:

<u>Year</u>	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
	<u>Board</u>	<u>KSFCC</u>	<u>Board</u>	<u>KSFCC</u>	
2013 - 14	924,943	616,206	465,098	248,475	2,254,722
2014 - 15	956,125	623,115	436,282	233,711	2,249,233
2015 - 16	901,330	625,036	410,808	219,723	2,156,897
2016 - 17	909,724	639,774	387,182	205,016	2,141,696
2017 - 18	940,300	659,831	361,661	189,074	2,150,866
2018 - 23	4,046,339	2,565,017	1,394,896	731,643	8,737,895
2023 - 28	3,366,748	2,178,252	853,594	381,442	6,780,036
2028 - 33	3,588,658	1,356,342	297,770	86,457	5,329,227
<u>Totals</u>	<u>15,634,167</u>	<u>9,263,573</u>	<u>4,607,291</u>	<u>2,295,541</u>	<u>31,800,572</u>

Following are changes in long-term debt:

	<u>Balance</u>			<u>Balance</u>	<u>Current</u>
	<u>July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2013</u>	<u>Principal</u>
Refunding December 1998	1,275,000		(1,275,000)	-	-
September 2001	1,610,000		(25,000)	1,585,000	215,000
Refunding March 2003	185,000		(185,000)	-	-
Revenue June 2004	290,000		(60,000)	230,000	230,000
KISTA Series January 2005	230,878		(84,198)	146,680	72,111
Revenue July 2006	2,600,000		(85,000)	2,515,000	140,000
KISTA Series 2009	647,759		(82,533)	565,226	85,034
Refunding February 2010	1,405,000		(230,000)	1,175,000	195,000
Revenue January 2011	1,920,000		(15,000)	1,905,000	75,000
Rev.2nd Series December 2011	6,745,000		(265,000)	6,480,000	265,000
QSCB Bonds December 2011	13,300,000		(560,193)	12,739,807	553,206
Refunding Revenue June 2012	3,360,000		(55,000)	3,305,000	55,000
KISTA Series 2013	-	355,834		355,834	170,000
Revenue Series September 2012	-	6,635,000	-	6,635,000	39,004
<u>Total</u>	<u>33,568,637</u>	<u>6,990,834</u>	<u>(2,921,924)</u>	<u>37,637,547</u>	<u>2,094,355</u>

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
<u>Governmental Activities</u>				
Land	4,975,533	-	-	4,975,533
Land improvements	3,320,282	-	-	3,320,282
Buildings and improvements	44,738,329	-	-	44,738,329
Technology equipment	4,278,930	82,356	-	4,361,286
Vehicles	5,608,160	345,932	840,293	5,113,799
General equipment	2,335,128	-	-	2,335,128
Construction in progress	6,090,219	12,870,335	-	18,960,554
<u>Totals at historical cost</u>	<u>71,346,581</u>	<u>13,298,623</u>	<u>840,293</u>	<u>83,804,911</u>
Less: accumulated depreciation				
Land and improvements	2,950,000	118,788	-	3,068,788
Buildings and improvements	16,835,985	865,431	-	17,701,416
Technology equipment	3,211,670	309,417	-	3,521,087
Vehicles	4,373,614	366,660	929,701	3,810,573
General equipment	2,274,565	16,128	-	2,290,693
<u>Total accumulated depreciation</u>	<u>29,645,834</u>	<u>1,676,424</u>	<u>929,701</u>	<u>30,392,557</u>
Governmental Activities				
<u>Capital Assets - Net</u>	<u>41,700,747</u>	<u>11,622,199</u>	<u>(89,408)</u>	<u>53,412,354</u>
	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
<u>Business-Type Activities</u>				
Building and Improvements	14,000	-	-	14,000
Technology	40,774	-	434	40,340
Food service and equipment	974,988	96,952	-	1,071,940
<u>Totals at historical cost</u>	<u>1,029,762</u>	<u>96,952</u>	<u>434</u>	<u>1,126,280</u>
Less: accumulated depreciation				
Building and improvements	1,180	1,040	-	2,220
Technology	18,287	5,821	-	24,108
Food service and equipment	861,301	23,520	427	884,394
<u>Total accumulated depreciation</u>	<u>880,768</u>	<u>30,381</u>	<u>427</u>	<u>910,722</u>
Business-Type Activities				
<u>Capital Assets - Net</u>	<u>148,994</u>	<u>66,571</u>	<u>7</u>	<u>215,558</u>

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE E – CAPITAL ASSETS (continued)

Depreciation expense was allocated to governmental functions as follows:

Instruction	1,322,257
Plant operations and maintenance	76,915
Student transportation	<u>277,252</u>
<u>Total</u>	<u>1,676,424</u>

NOTE F – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for equipment provide the minimum future rental payments as of June 30, 2013, as follows:

Year ending June 30:

2014	225,768
2015	225,768
2016	225,768
2017	225,768
2018	<u>225,768</u>

Total Minimum Rentals 1,128,840

NOTE G – RETIREMENT PLANS

Kentucky Teachers Retirement System:

Pension Plan

Plan Description – The Perry County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE G – RETIREMENT PLANS (continued)

be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contribution of 14.105%.

Medical Insurance Plan

Plan Description – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical insurance benefits is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding Policy – In order to fund the post-retirement healthcare benefit, three and one-half percent (3.5%) of the gross annual payroll of members before July 1, 2008 is contributed. One and three quarters percent (1.75%) is paid by member contributions and three quarters percent (.75%) from state appropriation and one percent 1% from the employer. Members after July 1, 2008 contribute an additional .50% to the Medical Insurance fund. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Perry County Public School District's total payroll for the year was \$24,957,827. The payroll for employees covered under KTRS was \$18,782,332. For the year ended June 30, 2013, the Commonwealth contributed \$2,122,733 to KTRS for the benefit of its participating employees. The School District's contributions to KTRS for the year ending June 30, 2013 were \$380,062 which represents those employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholdings of 5.00% except for new hires on or after September 1, 2008 with payroll

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

NOTE G – RETIREMENT PLANS (continued)

withholding of 6.00% and a district contribution of 19.55% of the employee's total compensation subject to contributions. Total payroll for employee's covered under CERS was \$5,630,017.

The contribution requirement for CERS for the year ended June 30, 2013 was \$1,382,165, which consisted of \$1,100,669 from the District and \$281,496 from the employees. The District has no contribution requirement to KTRS.

Following is a summary of contributions paid by the District on-behalf of the employees for the past three years:

Year Ended <u>June 30,</u>	<u>Teacher's Retirement</u>		County <u>Retirement</u>
	<u>District</u>	<u>State</u>	
2013	380,062	2,122,733	1,100,669
2012	420,602	2,127,696	977,512
2011	363,758	2,153,445	968,760

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to-date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	KTRS <u>as of June 30, 2012</u> (in millions of dollars)	CERS <u>as of June 30, 2012</u> (in millions of dollars)
Actuarial accrued liabilities	26,973.9	12,149.6
Actuarial value of assets	<u>14,691.0</u>	<u>7,294.6</u>
Unfunded (overfunded) actuarial accrued liabilities	<u><u>12,282.9</u></u>	<u><u>4,855.0</u></u>

Historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2012 comprehensive annual financial reports.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE G – RETIREMENT PLANS (continued)

As the Board is only one of several employers participating in the plan, it is not practical to determine the Board's portion of the unfunded past service cost or the vested benefits of the Board's portion of the plan assets.

NOTE H – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The District was notified Kentucky School Board Insurance Trust dissolved during the current fiscal year. As a result, penalty payments have been proposed to be passed to local participating Districts based on past premiums or past claims. Management estimates a liability of under \$100,000 at report date. Management is unsure if bonding will be an option for the District or if the Kentucky Department of Education will allow the District's capital outlay allotment to fund any balances due. Because the payment amount and funding resources are uncertain, management has elected to disclose the amount as a footnote disclosure only.

NOTE I – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE J – LITIGATION

The District is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate a material effect on the combined financial statements as a result of threatened, pending or ongoing litigation.

NOTE K – RISK MANAGEMENT

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE L – DEFICIT OPERATING/FUND BALANCES

The following funds had deficit balances at June 30, 2013:

NONE

The following funds had expenditures in excess of revenues at June 30, 2013:

Day Care Operations	550
Perry County Central High School Activity Fund	8,393
Buckhorn School Activity Fund	2,980
Big Creek Elementary Activity Fund	2,851
Chavies Elementary Activity Fund	18,640
Leatherwood Elementary Activity Fund	6,723

NOTE M – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school District at risk for a substantial loss (contingency).

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue	KETS	63,627
School Food Service	General Fund	Indirect Cost	20,863
Special Revenue Fund	Construciton Fund	Construction Expense	214,914
Special Revenue	General Fund	MOA	9,551
Capital Outlay	Debt Service	Debt retirement	188,912
FSPK Fund	Debt Service	Debt retirement	<u>1,816,415</u>
		Total	<u>2,314,282</u>

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

NOTE O – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2013 were \$-0-.

NOTE P – ANNUAL FINANCIAL REPORT DIFFERENCES

The following is a reconciliation of the June 30, 2013, fund balances/net position originally reported by the Board to the Kentucky Department of Education with that shown in the accompanying fund financial statements:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>FSPK Fund</u>	<u>Construction Fund</u>	<u>School Food Service Fund</u>	<u>Day Care Fund</u>
Fund Balance/Net Position as reported to the Department of Education	2,748,689	-	2,977,107	(113,367)	855,607	-
Adjustment to Fund Balance/Net Position						
(1) To record adjustments to accounts/grants receivable	225,855	9,201	-	-	-	-
(2) To record adjustments to accounts payable	(38,479)	(5,896)	-	(291,242)	-	-
(3) To adjust inventory	-	-	-	-	(11,014)	-
(4) To reclassify cash	3,305	(3,305)	-	-	-	-
(5) To record cash equivalent Construction Fund	-	-	-	3,445,540	-	-
(6) To record net fixed assets	-	-	-	-	215,558	-
Fund Balance/Net Position per fund financial statements at June 30, 2013	<u>2,939,370</u>	<u>-</u>	<u>2,977,107</u>	<u>3,040,931</u>	<u>1,060,151</u>	<u>-</u>

NOTE Q – ON-BEHALF PAYMENTS

The following payments made by the state on behalf of employees of the District and for the benefit of the District are recognized in the government-wide financial statements as additional revenue and expenditures for the year ended June 30, 2013:

Kentucky Teacher's Retirement System	2,119,295
Health Insurance	4,489,936
Life Insurance	10,609
Administrative Fees	51,176
Health Reimbursement Account	240,577
Technology	84,892
Less: Federal Reimbursement	<u>(578,862)</u>
Total	<u>6,417,623</u>

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

NOTE Q – ON-BEHALF PAYMENTS (continued)

Payments are allocated among the following funds:

General	6,245,386
Food Service	<u>172,237</u>
 Total	 <u><u>6,417,623</u></u>

NOTE R – FUND BALANCE REPORTING

The District implemented Governmental Accounting Standards Board No. 54, Fund Balance Reporting and Governmental Fund Type Definitions effective for the fiscal year ended June 30, 2011. This standard clarifies existing governmental fund type definitions and establishes fund balance classifications based on primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Classifications include *nonspendable*, examples being prepaid items and inventory, and the following spendable fund balances - *restricted* – fund balances that are constrained by external parties, constitutional provisions or enabling legislation, *committed* – fund balances that contain self-imposed constraints of the government from its highest level of decision making authority, *assigned* – fund balances that contain self-imposed constraints of the government to be used for a particular purpose and *unassigned* – fund balance of the general fund that is not constrained for any particular purpose. The standard affects fund balance reporting only and do not affect government-wide or proprietary fund financial statements.

The following schedule reflects governmental fund balances at June 30, 2013:

	<u>General Fund</u>	<u>Construction Fund</u>	<u>FSPK Fund</u>	<u>Total</u>
Fund balances				
Restricted for SFCC Escrow	-	-	2,977,107	2,977,107
Restricted for future construction	-	3,040,931	-	3,040,931
Restricted for sick leave	138,223	-	-	138,223
Assigned - purchase obligations	4,705	-	-	4,705
Unassigned fund balance	<u>2,796,442</u>	<u>-</u>	<u>-</u>	<u>2,796,442</u>
 Total	 <u><u>2,939,370</u></u>	 <u><u>3,040,931</u></u>	 <u><u>2,977,107</u></u>	 <u><u>8,957,408</u></u>

The District's budget by State law must have a minimum 2% contingency. However, a separate contingency reserve fund has not been established. The District's Statement of Net Assets reflects a reserve for fixed assets and school food service inventory.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE S – SUBSEQUENT EVENTS

The District authorized closure of Big Creek Elementary School and Dennis Wooton Elementary School. The District opened new facilities on Highway 80 for grades K-8, East Perry Elementary School and a new District athletic complex.

NOTE T – RECENT GASB PRONOUNCEMENTS

The following pronouncements were effective or available to be implemented for the fiscal year ended June 30, 2013. GASB 60, Accounting and Financial Reporting For Service Concession Arrangements, was implemented but did not have an effect on the financial statements of the District. GASB Statement No. 61, The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34 modifies certain requirements for inclusion of component units in the financial reporting entity. The implementation did not have an effect on the financial statements of the District. GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements, codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to derive from a single source and did not have an effect on the financial statements of the District. GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, provides financial accounting and reporting guidance for deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The implementation changed the District's statements to incorporate the concept of net position, however, the District elected not to early implement GASB Statement 65 which establishes accounting and financial reporting standards that reclassify certain assets and liabilities as deferred outflows of resources or deferred inflows of resources, provides changes in the determination of the major fund calculations and limiting the use of "deferred" in financial statement presentations.

PERRY COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues:				
From local sources:				
Taxes	7,102,542	7,319,664	7,767,618	447,954
Earnings on investments	125,000	125,000	219,162	94,162
Other local revenue	7,100	7,100	22,432	15,332
Intergovernmental - state	17,243,620	17,101,173	23,370,885	6,269,712
Intergovernmental - indirect federal	25,000	25,000	98,973	73,973
<u>Total revenues</u>	<u>24,503,262</u>	<u>24,577,937</u>	<u>31,479,070</u>	<u>6,901,133</u>
Expenditures:				
Instructional	15,098,567	15,303,310	18,849,574	(3,546,264)
Student support services	1,323,354	1,326,781	1,720,955	(394,174)
Staff support services	605,927	585,876	743,660	(157,784)
District administration	663,763	660,763	870,442	(209,679)
School administration	1,683,532	1,713,144	2,170,101	(456,957)
Business support	736,493	745,032	926,181	(181,149)
Plant operations and management	3,459,082	3,471,700	3,302,992	168,708
Student transportation	2,106,004	1,938,445	2,545,710	(607,265)
Food service operations	600	600	-	600
Community service activities	5,067	5,068	3,644	1,424
Debt service and miscellaneous	-	197,116	197,116	-
Contingencies	861,961	962,201	-	962,201
<u>Total expenditures</u>	<u>26,544,350</u>	<u>26,910,036</u>	<u>31,330,375</u>	<u>(4,420,339)</u>
Excess (deficit) of revenues over expenditures	<u>(2,041,088)</u>	<u>(2,332,099)</u>	<u>148,695</u>	<u>2,480,794</u>
Other financing sources (uses):				
Operating transfers in	8,863	9,551	30,414	20,863
Operating transfers out	(92,600)	(92,600)	(63,627)	28,973
Gains/losses on assets	15,000	15,000	-	(15,000)
<u>Total other financing sources (uses)</u>	<u>(68,737)</u>	<u>(68,049)</u>	<u>(33,213)</u>	<u>34,836</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	<u>(2,109,825)</u>	<u>(2,400,148)</u>	<u>115,482</u>	<u>2,515,630</u>
Fund balance - July 1, 2012	<u>2,109,825</u>	<u>2,400,148</u>	<u>2,674,067</u>	<u>273,919</u>
Fund balance - June 30, 2013	<u>-</u>	<u>-</u>	<u>2,789,549</u>	<u>2,789,549</u>

- Actual results include state on-behalf transactions totalling \$6,245,386.
- Ending fund balance represents unassigned fund balance at June 30, 2013 without regard to the District's restriction on sick leave in the amount of \$138,223.

See notes to financial statements and independent auditor's report.

PERRY COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
Revenues:	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
From local sources	9,000	27,012	81,058	54,046
Intergovernmental - state	1,718,499	2,032,903	2,194,544	161,641
Intergovernmental - direct federal	89,141	220,115	66,723	(153,392)
Intergovernmental - indirect federal	4,329,641	4,710,437	5,107,744	397,307
<u>Total revenues</u>	<u>6,146,281</u>	<u>6,990,467</u>	<u>7,450,069</u>	<u>459,602</u>
Expenditures:				
Instructional	4,561,609	4,961,401	4,992,924	(31,523)
Student support services	31,129	31,129	37,652	(6,523)
Staff support services	960,304	1,232,410	1,437,408	(204,998)
District administration support services	-	-	3,218	(3,218)
Business support services	14,016	14,016	14,487	(471)
Plant operations and maintenance	19,109	19,904	51,662	(31,758)
Student transportation	113,998	266,791	170,547	96,244
Food service operation	529,853	3,000	5,436	(2,436)
Community service activities	-	544,865	575,897	(31,032)
<u>Total expenditures</u>	<u>6,230,018</u>	<u>7,073,516</u>	<u>7,289,231</u>	<u>(215,715)</u>
Excess (deficit) of revenues over expenditures	<u>(83,737)</u>	<u>(83,049)</u>	<u>160,838</u>	<u>(243,887)</u>
Other financing sources (uses):				
Operating transfers in	92,600	92,600	63,627	28,973
Operating transfers out	(8,863)	(9,551)	(224,465)	214,914
<u>Total other financing sources (uses)</u>	<u>83,737</u>	<u>83,049</u>	<u>(160,838)</u>	<u>243,887</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	-	-	-	-
Fund balance - July 1, 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - June 30, 2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

See notes to financial statements and independent auditor's report.

PERRY COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2013

	SEEK Capital Outlay <u>Fund</u>	Debt Service <u>Funds</u>	<u>Total</u>
Revenues:			
Intergovernmental - State	<u>366,421</u>	<u>1,378,550</u>	<u>1,744,971</u>
<u>Total revenues</u>	<u>366,421</u>	<u>1,378,550</u>	<u>1,744,971</u>
Expenditures:			
Plant Operation and Maintenance	338,574	-	338,574
Debt service:			
Principal	-	2,755,193	2,755,193
Interest	<u>-</u>	<u>628,684</u>	<u>628,684</u>
<u>Total expenditures</u>	<u>338,574</u>	<u>3,383,877</u>	<u>3,722,451</u>
Excess (deficit) of revenues over expenditures	<u>27,847</u>	<u>(2,005,327)</u>	<u>(1,977,480)</u>
Other financing sources (uses):			
Operating transfers in	-	2,005,327	2,005,327
Operating transfers out	<u>(188,912)</u>	<u>-</u>	<u>(188,912)</u>
<u>Total other financing sources (uses)</u>	<u>(188,912)</u>	<u>2,005,327</u>	<u>1,816,415</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(161,065)	-	(161,065)
Fund balance, July 1, 2012	<u>161,065</u>	<u>-</u>	<u>161,065</u>
Fund balance, June 30, 2013	<u>-</u>	<u>-</u>	<u>-</u>

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

PERRY COUNTY HIGH SCHOOL ACTIVITY FUND

For the Year Ended June 30, 2013

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Excess (Deficit) of Revenues over Expenditures</u>	<u>Fund Balance July 1, 2012</u>	<u>Fund Balance June 30, 2013</u>
General	38,261	44,354	(6,093)	7,369	1,276
Locker	3,200	-	3,200	-	3,200
Lost textbooks	742	417	325	613	938
Parking tags	495	280	215	-	215
Pepsi lounge	8,744	9,749	(1,005)	1,204	199
Pepsi lobby	16,100	11,098	5,002	-	5,002
Breaktime vending	501	-	501	-	501
Donated	-	-	-	5,010	5,010
District soccer	2,752	2,752	-	-	-
Breaktime vend lounge	328	1,304	(976)	2,072	1,096
Field house pop machine	486	326	160	-	160
Janitorial	1,889	1,889	-	-	-
Board travel	20,000	23,485	(3,485)	3,500	15
Regional girls	12,895	11,856	1,039	-	1,039
WYMT hospitality	6,642	6,642	-	-	-
WYMT concessions	-	2,082	(2,082)	3,221	1,139
Concessions	-	-	-	60	60
Gate receipts	40,129	41,365	(1,236)	2,242	1,006
Football	72,451	90,991	(18,540)	28,316	9,776
Track	1,839	386	1,453	210	1,663
Boys basketball	62,318	63,771	(1,453)	1,453	-
Girls basketball	58,711	48,343	10,368	-	10,368
Wrestling	14,075	14,083	(8)	2,229	2,221
Volleyball	20,574	17,410	3,164	1,475	4,639
M/S Volley	2,455	2,529	(74)	74	-
Golf	1,011	1,052	(41)	41	-
Cross country	4,699	2,996	1,703	1,138	2,841
Baseball	12,148	12,148	-	-	-
Softball	38,300	36,421	1,879	2,707	4,586
Boys varsity cheerleaders	35,673	38,235	(2,562)	2,562	-
Tennis	973	1,511	(538)	1,418	880
Middle school football	4,873	8,806	(3,933)	3,933	-
Soccer	25,869	24,289	1,580	1,880	3,460
District tourney	21,080	21,080	-	-	-
Academics	1,825	1,418	407	158	565
Band	5,106	5,233	(127)	152	25
BETA	422	402	20	-	20
Business/FBLA	959	642	317	274	591
Chorus	8,220	7,652	568	49	617
Commodore	-	-	-	543	543
Drama	5,918	6,658	(740)	1,115	375
FCCLA	1,571	1,419	152	173	325
FFA	2,186	1,781	405	463	868
Guidance	8,116	7,258	858	-	858
JROTC	7,848	7,784	64	3,838	3,902
Juniors	8,324	7,698	626	3,289	3,915
Library	30	132	(102)	799	697
National art	1,266	1,282	(16)	353	337
Newspaper	-	-	-	170	170
Yearbook	5,027	2,699	2,328	5,952	8,280
Seniors	98,349	98,182	167	1,812	1,979
Overview tech	732	903	(171)	192	21
YSC	1,870	3,581	(1,711)	3,314	1,603
State tournament	-	-	-	556	556
<u>Sub-totals</u>	<u>687,982</u>	<u>696,374</u>	<u>(8,393)</u>	<u>95,929</u>	<u>87,537</u>
Less: Interfund transfers	<u>66,375</u>	<u>66,375</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Totals</u>	<u>621,607</u>	<u>629,999</u>	<u>(8,393)</u>	<u>95,929</u>	<u>87,537</u>

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEBUCKHORN SCHOOL ACTIVITY FUNDFor the Year Ended June 30, 2013

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Excess (Deficit) of Revenues over Expenditures</u>	<u>Fund Balance July 1, 2012</u>	<u>Fund Balance June 30, 2013</u>
General fund	31,312	25,277	6,035	3,910	9,945
Vending machines	2,060	-	2,060	3,090	5,150
Employee workroom	1,952	5,001	(3,049)	3,669	620
School supplies	-	-	-	82	82
Textbook	2,640	6,850	(4,210)	5,271	1,061
Elem academics	-	-	-	201	201
High school academics	1,500	1,509	(9)	116	107
Carnival funds	-	270	(270)	546	276
FBLA club	3,437	4,761	(1,324)	3,943	2,619
STLP	8	37	(29)	29	-
Baseball	11,880	11,979	(99)	-	(99)
Cross country/track	404	151	253	239	492
Elem 3th & 4th basketball	-	-	-	636	636
Middle school baseball	-	154	(154)	154	-
Elem boys basketball	5,386	9,564	(4,178)	7,464	3,286
Elem boys cheerleader	2,011	1,935	76	60	136
Elem girls basketball	19,258	16,504	2,754	477	3,231
H.S. boys basketball	25,786	26,449	(663)	763	100
H.S. girls basketball	14,390	16,396	(2,006)	2,006	-
H.S. cheerleaders	900	3,808	(2,908)	2,908	-
Volleyball	7,466	7,706	(240)	240	-
Soccer	3,100	1,181	1,919	-	1,919
Softball	2,579	5,215	(2,636)	547	(2,089)
JROTC	7,879	3,906	3,973	1,750	5,723
Teens for Christ	104	221	(117)	117	-
Spanish	-	-	-	2	2
Social studies	-	-	-	18	18
Library	2,960	3,201	(241)	1,639	1,398
Science/health/P.E.	-	-	-	38	38
Yearbook	1,758	3,116	(1,358)	1,554	196
Reimbursement	500	483	17	-	17
Family resource center	7,909	8,025	(116)	5,417	5,301
FRYSC Children Inc.	2,821	1,179	1,642	1,963	3,605
8th Grade cap and gown	525	525	-	-	-
8th Grade trip	1,772	2,077	(305)	305	-
11th Grade - Prom	2,497	1,212	1,285	-	1,285
12th Grade	-	44	(44)	45	1
Senior trip 2012	40,576	38,898	1,678	-	1,678
Guidance - Ky Ahed	526	526	-	-	-
Guidance - records	310	1,026	(716)	1,135	419
<u>Sub-totals</u>	<u>206,206</u>	<u>209,186</u>	<u>(2,980)</u>	<u>50,334</u>	<u>47,354</u>
Less: Interfund transfers	<u>9,216</u>	<u>9,216</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Totals</u>	<u>196,990</u>	<u>199,970</u>	<u>(2,980)</u>	<u>50,334</u>	<u>47,354</u>

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE

OTHER SCHOOL ACTIVITY FUNDS

For the Year Ended June 30, 2013

	<u>A.B. Combs Elementary</u>	<u>Big Creek Elementary</u>	<u>Chavies Elementary</u>	<u>Dennis C. Wooton Elementary</u>
<u>REVENUES:</u>				
Activity funds	150,960	30,254	85,842	175,656
<u>EXPENDITURES:</u>				
Activity funds	<u>135,483</u>	<u>33,105</u>	<u>104,482</u>	<u>148,096</u>
Excess or (deficiency) of revenues over <u>expenditures</u>	15,477	(2,851)	(18,640)	27,560
Fund Balance, July 1, 2012	<u>8,001</u>	<u>26,034</u>	<u>60,682</u>	<u>81,241</u>
Fund Balance, June 30, 2013	<u><u>23,478</u></u>	<u><u>23,183</u></u>	<u><u>42,042</u></u>	<u><u>108,801</u></u>

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCEOTHER SCHOOL ACTIVITY FUNDSFor the Year Ended June 30, 2013

<u>Leatherwood Elementary</u>	<u>Robinson Elementary</u>	<u>R.W. Combs Elementary</u>	<u>Viper Elementary</u>	<u>Willard Elementary</u>	<u>Total (Memorandum Only)</u>
90,518	108,188	104,834	93,082	77,502	916,836
<u>97,241</u>	<u>106,048</u>	<u>101,891</u>	<u>91,031</u>	<u>75,117</u>	<u>892,494</u>
(6,723)	2,140	2,943	2,051	2,385	24,342
<u>22,758</u>	<u>24,682</u>	<u>46,915</u>	<u>33,469</u>	<u>8,599</u>	<u>312,381</u>
<u><u>16,035</u></u>	<u><u>26,822</u></u>	<u><u>49,858</u></u>	<u><u>35,520</u></u>	<u><u>10,984</u></u>	<u><u>336,723</u></u>

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFor the Year Ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
<u>U. S. Department of Agriculture</u>				
Passed through State Department of Education:				
- <i>Child Nutrition Cluster</i> -				
School Breakfast Program	10.553	7760005 13	N/A	691,432
	10.553	7760005 12	N/A	199,322
				<u>890,754</u>
School Lunch Program	10.555	7750002 13	N/A	1,262,630
	10.555	7750002 12	N/A	367,769
				<u>1,630,399</u>
Summer Food Service Program for Children	10.559	7690024 12	N/A	138,620
	10.559	7690023 13	N/A	39,595
				<u>178,215</u>
Passed through State Department of Agriculture:				
National School Lunch Program	10.555	097-0100	N/A	122,648
				<u>122,648</u>
<u>Total Child Nutrition Cluster</u>				<u>2,822,016</u>
Passed through State Department of Education:				
Fruit and Vegetable Program	10.582	7720012 12	N/A	28,350
	10.582	7720012 13	N/A	72,032
State Administrative Expenses for Child Nutrition	10.560	7850012 12	N/A	1,000
				<u>101,382</u>
Passed through Perry County Fiscal Court				
Schools and Roads Grant to States	10.665	505X	N/A	2,231
				<u>2,231</u>
<u>Total U.S. Department of Agriculture</u>				<u>2,925,629</u>
<u>U. S. Department of Education</u>				
Passed through State Department of Education:				
- <i>Title I Cluster</i> -				
Title I	84.010	3102	2,487,292	1,092,608
	84.010	3103	2,368,636	1,756,579
Title I School Improvement	84.010	3203	55,000	26,980
<u>Total Title I Cluster</u>				<u>2,876,167</u>
- <i>Special Education Cluster</i> -				
IDEA - B Basic	84.027	3372	992,069	45,259
	84.027	3373	988,901	988,855
IDEA -B Preschool	84.173	3432	75,575	20,981
	84.173	3433	75,350	47,214
				<u>1,102,309</u>

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
Vocational Education - Basic	84.048	3483	46,677	39,607
	84.048	3482	52,180	3,252
	84.048	3481A	3,421	3,421
				46,280
Education Technology Title II D	84.318X	4251	8,374	5,526
Rural and Low Income School Program	84.358	3501	114,509	4,627
Rural and Low Income School Program	84.358	3502	89,559	79,354
				83,981
Teacher Quality Grant	84.367	4012	383,504	5,636
	84.367	4013	377,654	353,744
				359,380
Education Jobs Fund ARRA	84.410	4411	1,031,571	14,321
REMS Readiness and Emergency Management	84.184E	5341E	147,500	29,867
Race to the Top	84.413A	4521	100,301	12,804
Passed through Kentucky Community & Technical College:				
GEAR-UP	84.334A	3792G	390,668	107,949
	84.334A	3793G	280,000	397,702
	84.334A	3793A	382,300	165,304
	84.334A	3793P	55,112	55,112
				726,067
<u>Total Department of Education</u>				5,256,702
<u>Appalachian Regional Commission</u>				
Direct				
Appalachian Higher Education Network (KY AHED)	23.011	6882	10,000	2,348
	23.011	6883	7,018	7,018
<u>Total Appalachian Regional Commission</u>				9,366
<u>US Department of Defense</u>				
Direct				
JROTC	12.000	5042	89,141	107,977
<u>Total Federal Awards Expended</u>				8,299,674

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2013**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Perry County School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Noncash assistance \$122,648, is reported in the schedule at the fair value of the food donations disbursed.

Chris Gooch

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

State Committee for School District Audits
Members of Perry County Board of Education
Hazard, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the appendices to the Independent Auditor's Contract, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Perry County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Perry County School District's basic financial statements, and have issued our report thereon dated October 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Perry County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Perry County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Perry County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether Perry County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Perry County School District, in a separate letter dated October 23, 2013. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract – State Audit Requirements.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 23, 2013

Chris Gooch

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

State Committee for School District Audits
Members of Perry County Board of Education
Hazard, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Perry County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Perry County School District's major federal programs for the year ended June 30, 2013. Perry County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Perry County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the appendices to the Independent Auditor's Contract. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Perry County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Perry County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Perry County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of Perry County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Perry County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Perry County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 23, 2013

PERRY COUNTY SCHOOL DISTRICTSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGSFor the Year Ended June 30, 2013

- FINDING RELATED TO THE FINANCIAL STATEMENTS –

2012-1:

Condition:

A material fund financial statement adjustment reclassifying and recording total bond proceeds was entered after release of the financial statement report.

Criteria:

District financial personnel should consider the fund financial statement implications for recording debt service transactions.

Cause:

The existing financial reporting procedures did not have proper steps in place to monitor significant and material transactions that warranted consideration for inclusion in the fund financial statements.

Effect:

The fund financial statements did not initially capture the total bond proceeds issued in the current year.

Recommendation:

The District should document procedures considering the fund financial statement impact of debt service reporting and record transactions when deemed necessary.

District Response:

The District has developed procedures considering the fund financial statement impact of debt service reporting and has recorded transactions when deemed necessary.

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS –

None

PERRY COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2013

- SUMMARY OF AUDIT RESULTS –

1. We have issued an unmodified opinion on the financial statements.
2. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit in internal control over major programs.
5. We have issued an unmodified opinion on compliance for major programs.
6. The audit did not disclose any audit findings which we are required to report under Section .510(a) of A-133.
7. Perry County School District had the following major programs:

U. S. Department of Education

Passed through State Department of Education:

Title I

CFDA number 84.010

- Special Education Cluster -

IDEA-B Basic

CFDA number 84.027

IDEA-B Preschool

CFDA number 84.173

Passed through Kentucky Community & Technical College

GEAR-UP

CFDA number 84.334A

U.S. Department of Agriculture

- Passed through State Departments of Education and Agriculture -

- Child Nutrition Cluster -

School Lunch and Breakfast Program, Summer Food Service
Program for Children

CFDA numbers 10.553, 10.555 & 10.559

8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee did not qualify as a low-risk auditee.

PERRY COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)For the Year Ended June 30, 2013

- FINDING RELATED TO THE FINANCIAL STATEMENTS –

None

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS –

None

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Perry County Board of Education
and Management
Hazard, Kentucky

In planning and performing our audit of the financial statements of Perry County School District for the year ended June 30, 2013, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operation efficiency. The memorandum that accompanies this letter summarized our comments and suggestions regarding those matters. A separate report dated October 23, 2013, contains our report on significant deficiencies and material weaknesses in the District's internal control structure. This letter does not affect our report dated June 30, 2013 on the financial statements of the Perry County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

A handwritten signature in blue ink, appearing to read 'Chris Gooch', with a stylized, flowing script.

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 23, 2013

PERRY COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2013**Prior Year Comments**

1. Management should provide documentary evidence that fixed asset accounting system subsidiary accounts are periodically compared and reconciled to actual fixed inventory. We noted several adjustments to include fixed asset additions other than technology equipment at end of year for the current reporting period.
2. We noted in our audit of payroll deduction transactions that authorization for deductions was not on file or for an incorrect amount for ten employees. We noted no W-4 or I-9 form on file for two employees. Management should provide evidence that a periodic review of employee authorization files is internally performed. In our current year audit we noted some authorizations for KEA deductions were not on file. We noted that authorization forms for Humana insurance did not agree to deductions due to increases made after forms were signed. W-4 forms are now included in new hire packets. All other deductions may be changed only upon employee authorization. Management should retain the authorization CD from its insurance agent for internal and external verification purposes.
3. Management should ensure supporting documentation accompanies cash receipt and disbursement transactions at the activity fund level. The following were noted for sample transactions tested during our current year audit: No fundraising report for one sample at Viper Elementary School. No state prescribed forms implemented for inventory sales from school store, pencils, concession at Willard Elementary School. Accounting for activity fund procedures training regarding fundraising was conducted during the year.
4. Ticket sales reports accounted for through the District's General Fund should reflect indication of second personnel review. Our current year audit reflected indication of second personnel review.
5. When testing fundraising reports prepared by Leatherwood Activity fund personnel, we noted some fundraising reports without a sponsor signature. Management stated future fundraising reports will indicate sponsor signatures. We noted proper signatures when testing fundraising reports during the current year audit.
6. We noted some State sales tax paid when testing General Fund disbursements. Management stated an emphasis to monitor sales tax charged for future District disbursements will be addressed to appropriate personnel and reimbursement requests for charges paid will be initiated. We noted no significant sales tax paid in transactions selected for testing during our current year audit.
7. When testing childcare activity we noted some instances where children listed as attended did not indicate billing for services provided or billing could not be tracked to a specific attendance record. Management will emphasize to personnel the importance of maintaining records that can be easily agreed as to attendance and billing per child. Our test sample for the current year audit indicated management had adopted procedures to comply with this recommendation.

PERRY COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTS (Continued)For the Year Ended June 30, 2013**Current Year Comments**

1. Daily food service sales reports sampled and provided to District management from PCCHS and Chavies Elementary had invalid numbers in the cash over/short. Therefore, we were unable to determine if actual cash overages/shortages were occurring.
2. Food service management should assure adequate controls are maintained regarding accounting for prepaid cash receipts in its "lunchbox report" accounting system.
3. An adequate control system should indicate reconciliation of attendance to cash receipts book regarding Fund 52 Child Care receipts.
4. An asset purchase acquired through RW Combs Elementary Activity Fund for \$3,612 was not initially included on the District's fixed asset accounting system. Management should develop controls to assure expenditures meeting fixed asset criteria and paid through activity fund accounts are recorded.
5. We noted a \$1,700 expenditure for contractual services related to cheerleading camp written from AB Combs Elementary Activity Fund. We noted no 1099-MISC prepared for this expenditure.
6. Management should ensure employee authorization for payroll deductions are on file or are readily available to verify. We noted five employees who did not sign authorizations for salary reductions. We did not locate eleven employees authorization for deductions in our test sample selected.